

OFFICE OF THE INSPECTOR GENERAL OF THE DEPARTMENT OF DEFENSE

**SUMMARY OF
REPORTS ISSUED AND
PARTICIPATION ON MANAGEMENT ADVISORY TEAMS
AND SPECIAL AUDIT/EVALUATION EFFORTS**

OCTOBER, NOVEMBER, AND DECEMBER 2002



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PART I

REPORT SUMMARIES

ACQUISITION PROGRAM

REPORT NO. D-2003-013. Fuel Cells of the V-22 Osprey Joint Advanced Vertical Aircraft. The report discusses fuel cell safety considerations for the V-22 used for flight testing.

Safety risks for V-22 flight testing were not minimized because V-22 aircraft in use for engineering and manufacturing development (EMD) flight testing have noncrashworthy fuel cells. The V-22 fuel cells in the sponsons for the 4 EMD aircraft, the aft fuel cell in the right fuselage sponson for the 12 low-rate initial production (LRIP) aircraft in Lots 1 and 2, and all fuel cells in the fuselage sponsons for the 7 LRIP aircraft in Lot 3 did not meet crashworthiness standards. Further, the V-22 fuel cells in the EMD aircraft and in the LRIP aircraft in Lots 1, 2, and 3 did not meet ballistic live-fire requirements. For subsequent lots, the contractor developed sponson fuel cells that meet crashworthiness and ballistic requirements. The V-22 Program Office plans to install those compliant fuel cells at an average cost to the Government of about \$512,000 per aircraft on the 17 remaining LRIP aircraft from Lots 1 through 3. However, the V-22 Program Office does not plan to install crashworthy sponson fuel cells on V-22 aircraft used for EMD testing. As a result, the safety risk to aircrews of those aircraft will not be minimized if the aircraft are not retrofitted before further flight testing.

The Navy did not approve retrofitting the EMD aircraft with crashworthy fuel cells to minimize aircrew risk because those aircraft would be used only for flight testing. Consequently, we requested that the Under Secretary determine whether the risk of flying the EMD aircraft with noncrashworthy fuel cells was acceptable. The Under Secretary responded, stating that the benefits of returning to flight as scheduled to address other technical concerns outweighed the limited risk reduction attained by retrofitting the aircraft with crashworthy fuel cells. The Under Secretary also stated that he agreed with the assessment by the Commander, Naval Air Systems Command that the risk of conducting developmental testing with noncrashworthy fuel cells was within manageable flight test boundaries and with the Commander's decision to return to developmental testing with aircraft having noncrashworthy fuel cells. The Commander cited a system safety assessment of the V-22 as part of the basis for his decision; however, the V-22 Program Office and Boeing were not able to provide us with documentation that supported the system safety risk assessment.

On May 28, 2002, in response to an informal recommendation, the Under Secretary stated that the Navy had now formally documented its risk assessment process. However, when the Under Secretary made his decision, the risk assessment was not supported by documentation and the methodology used was flawed. On June 7, 2002, we informed the Under Secretary that the risk assessment raised a fundamental question concerning the evaluation methodology used because it did not consider the unique nature of the EMD testing and the EMD test aircraft. On July 12, 2002, the Navy provided the supporting data for the risk assessment, which was less than adequate. To have been a meaningful risk assessment, the methodology should have been revised to include a crash frequency probability based on the past performance of either the V-22 EMD test or other developmental aircraft. Further, the system safety risk assessment model should have been adjusted to account for the nonindependence between the "probability that the crash occurs over land" and the "probability that a crash is survivable." Using the crash frequency probability data that the Navy did provide and adjusting for the revised methodology, the safety risk assessment code would increase from undesirable or a medium safety risk to unacceptable or high safety risk.

In response to the draft report, the Under Secretary stated that he has again concluded that the benefits of continuing to fly to address his other technical concerns outweighed the limited risk reduction attained by stopping the V-22 flight test program and retrofitting fuel cells with greater crashworthiness on the four EMD-only aircraft. The Under Secretary stated that his office will ensure that the Military Departments' safety organizations review their procedures and update them, as appropriate.

CONTRACTING OVERSIGHT

REPORT NO. D-2003-003. Controls for the DoD Aviation Into-Plane Reimbursement Card. The report discusses how to maintain a process that would validate Aviation Into-Plane Reimbursement (AIR) Card transactions to monthly bills to prevent waste in this program.

The Defense Logistics Agency, the Defense Energy Support Center, and the Services needed to improve management controls and establish written policies that define the methods and responsibilities for using the AIR Card. Controls include review of contractor performance, program oversight, system edit-checks, and training. Controls should ensure that DoD Components have an adequate process in place that would match AIR Card receipts for fuel and ground services to monthly bills, preclude duplicate payments, and recoup fuel and ground service taxes from which DoD was exempt. Reviews of 17 sites judgmentally selected showed that 69 percent of 24,959 AIR Card receipts valued at \$37.3 million were never verified to monthly bills. Of the units reviewed, only three Navy units were doing an adequate job of matching receipts to monthly bills. The Defense Energy Support Center, Defense Finance and Accounting Service, and the Services need to initiate action to recover \$8.3 million of duplicate payments and tax overpayments.

REPORT NO. D-2003-016. Material Distribution Services Contract at the Defense Distribution Depot Warner Robins, Georgia. The report discusses the necessity for a well-written contract that ties contractor payment to performance and provides for aggressive enforcement of contract provisions.

The material distribution services contract at the Depot was not adequately written regarding contractor performance, and the Defense Logistics Agency (DLA) did not provide adequate contractor oversight. The contract did not allow for reduced payment to the contractor when the contractor: did not deliver 75 percent of 3,397 expedited orders within the required 1 hour over a 12-week period; achieved only 36 percent to 81 percent per month of acceptable performance levels over a 14-month period; did not submit 11 (26 percent) of 42 monthly quality assurance reports; and did not implement a revised quality assurance customer satisfaction plan until 21 months after contract award.

In addition, the contract needed to be modified to include acceptable contractor performance levels for care of supplies in storage, quality assurance, and customer responsiveness. DLA also needed to: develop a specific quality assurance surveillance plan, develop an individual training plan for personnel to oversee the contract, provide adequate guidance to manage the plan, and effectively manage the transition from DoD to contractor personnel. As a result, DLA customers did not receive proper support and incurred unnecessary costs. In addition, the Defense Distribution Center New Cumberland miscalculated and did not collect about \$4,138 in reimbursement from EG&G Logistics for the use of DLA personnel to eliminate a backlog that EG&G Logistics allowed to develop immediately after taking over the distribution function. In positive actions, the Depot completed and implemented a specific quality assurance surveillance plan effective April 1, 2002. Also, the Depot deducted \$4,138 from the EG&G Logistics May 2002 invoice to recover the full cost of the DLA employees that assisted in eliminating the backlog.

REPORT NO. D-2003-018. Validity of Registration in the Central Contractor Registration Database. The report identifies noncompliance with the requirement that recipients of Government funds be properly registered in the Central Contractor Registration (CCR) database. Payments to nonregistered vendors increase the potential for fraud and hinder the efforts for debt recovery and collection of income taxes.

DoD did not adequately implement a recommendation in a prior audit report requiring contracting officers to obtain tax identification numbers (TINs) and provide them to DoD paying offices. A judgmental review of 4,607 payments with mismatched identity codes showed 1,297 payments, totaling \$270.4 million, were made to contractors and vendors that were not properly registered in the CCR database at the time of payment. As a result, the TINs were not available to report contractor and vendor payments to the IRS for income taxes and for debt recovery. The lack of TIN information also exposed the payment systems to potential fraud. If DoD withheld payment from contractors and vendors who are not properly registered in the CCR database, it would motivate contractors and vendors to ensure the availability of correct tax identification information.

A judgmental review of 1,033 vendor payments made between March and July 2001 showed that the Defense Finance and Accounting Service (DFAS) made 327 check payments for \$1.2 million that should have been made by electronic fund transfer (EFT). DFAS also made 18 payments totaling \$126,694 by check that should have been made using the Online Payments and Collection System. As a result, the DFAS payment processes were not in full compliance with Title 31, United States Code (U.S.C.) 3332 and are incurring higher costs for making payments by check. Requiring that all contractors and vendors be properly registered in the CCR database and paid by EFT, would meet the intent of the U.S.C., reduce error, and save time and money.

REPORT NO. D-2003-019. DoD Contractor Subcontracting With Historically

Underutilized Business Zones (Hubzones) Small Businesses. The report discusses the necessity for accurate reporting of HUBZone small business subcontracting awards. Senator Christopher S. Bond requested a review to answer specific questions pertaining to subcontracting plans, monitoring compliance with subcontracting plans, and goals within the small business program, particularly the HUBZone program. The request was in response to a concern that Defense prime contractors were apparently neglecting the HUBZone small business program.

Of the 16 Defense prime contractors reviewed, 5 incorrectly reported HUBZone small business subcontracting awards and the DoD buying offices did not always adhere to best management practices in the submission, approval, and administration of the subcontracting plans, goals, and waivers. However, the contractors generally implemented the HUBZone small business program into their subcontracting efforts, and provided limited subcontracting opportunities to HUBZone small business concerns. The Defense Contract Management Agency (DCMA) San Francisco was not sufficiently monitoring the contractors' reporting of the HUBZone small business subcontracting awards.

Five of the 16 contractors overstated their FY 2001 HUBZone small business subcontracting awards by about \$1.34 million. Current and future summary subcontract reports should provide accurate data on HUBZone small business subcontracting awards. DCMA should implement a plan for reviewing and verifying prime contractors' reported HUBZone subcontracting awards, and inform contractors of the need to obtain and verify representation of a contractor's HUBZone status through the Small Business Administration.

REPORT NO. D-2003-029. Contract Actions Awarded to Small Businesses. We initiated this audit to determine whether contracting officials followed established procedures when awarding orders to small businesses using the General Services Administration (GSA) Federal Supply Schedules (FSS) and whether contracting officials used appropriate market research.

Contracting officials did not make adequate efforts to use market research, competition, and the huge buying power of DoD as a basis for obtaining good prices. Contracting officials did not comply with Federal Acquisition Regulations (FAR) and GSA Special Ordering Procedures when awarding 71 of 73 orders using FSS. The value of the 71 orders was \$249.3 million. Each of the 71 orders had 1 or more of the following problems: inadequate or no review of contractor pricelists (15 of 17 orders for products, or 88 percent; 36 of 44 orders

for services, or 82 percent; and 9 of 12 orders for a combination of products and services, or 75 percent); no request for discounts (45 of 64 orders, or 70 percent); inappropriate use of sole-source orders instead of seeking multiple sources (31 of 73 orders, or 42 percent); and inadequate review of labor hours, labor mixes, and labor rates (49 of 56 orders, or 88 percent).

As a result, there is no assurance that the Government paid fair and reasonable prices or obtained best value for the 71 FSS orders. More specific guidance from the Under Secretary of Defense (Acquisition, Technology, & Logistics) would increase the likelihood of DoD obtaining good pricing from orders issued using FSS.

Contracting officials also did not effectively use market research techniques to obtain competition and better pricing for contracts awarded to small businesses in which FSS were not used. For 17 of 51 contract actions reviewed, contracting officials made sole-source awards to small businesses without convincing sole-source justifications. The value of the 17 orders was \$131.6 million. Contracting officials also awarded 6 of the 51 contract actions on a competitive basis knowing that only 1 offeror was likely to submit a proposal. The value of the six contract actions was \$219.6 million. As a result, other eligible small businesses were not considered. Inadequate price reasonableness determinations were also made, and problems related to the use of Truth in Negotiations Act continue to exist.

Four prior IG DoD audits identified price reasonableness and Truth in Negotiations Act problems similar to the problems in this report. Accordingly, DoD needs to take an aggressive role in monitoring its contracting officials.

REPORT NO. D-2003-038. Management Controls Over Proposed Prime Vendor Support for the Army Apache Helicopter. This evaluation was performed in response to a Defense Hotline allegation. The allegation indicated that evaluation of an Office of Management and Budget Circular No. A-76 waiver request for the Apache helicopter Prime Vendor Support program by the Army was flawed. After performing a review of the allegations, IG DoD, Office of Departmental Inquiries (DI) concluded in a memorandum issued on June 29, 2000, that there were no apparent violations of law or regulation by the two senior officials identified in the allegation. Subsequently, we examined the management controls relevant to the allegation. On December 16, 2002, additional information provided by the Defense Hotline complainant of potential conflicts of interests and bias by senior officials was provided to DI.

The Circular A-76 waiver process used for the Prime Vendor Support evaluation needed clarification because of lack of specific guidance that addresses actual and apparent conflicts of interest, separation of duties, use of a common requirements baseline, basis for determining whether costs are realistic and fair, and requirement for an independent review of the cost comparison.

The Aviation and Missile Command and the Program Executive Office took actions to safeguard Government and contractor competition-sensitive data. While we did not note any actual instances of disclosure or transfusion of contractor proprietary data, we identified instances where multiple responsibilities assigned to three DoD employees created an opportunity for inadvertent disclosure or transfusion of contractor proprietary data.

The Government and contractor proposals were not based on a common requirements baseline and an independent review of the costs were not performed

ENVIRONMENT

REPORT NO. D-2003-001. DoD Integrated Natural Resources Management Plans. The Sikes Act Improvement Amendments, Public Law 105-85, “Sikes Act Improvement Act of 1997,” requires that installations with significant natural resources prepare and implement by November 18, 2001, integrated natural resources management plans in cooperation with the U.S. Fish and Wildlife Service and appropriate State fish and wildlife agencies.

DoD had made a positive effort to implement the requirements of the Sikes Act Improvement Amendments, but full implementation has proven difficult, and additional management action is needed. DoD had completed 310 of 373 plans (83 percent) by the November 18, 2001, deadline, and an additional 37 plans were completed by June 10, 2002. Installations also coordinated the plans, as required, with the U.S. Fish and Wildlife Service and State fish and wildlife agencies. However, the process can be improved. Of the 10 installations visited, 8 could not match integrated natural resources management plan projects to budget documentation. All 10 of the installations did not have methods to adequately monitor implementation of the plans, and DoD did not take advantage of an opportunity to manage with other agencies natural resources on military lands. DoD did not know the extent to which installations were accomplishing goals and objectives identified in their plans. DoD also had an increased risk for critical habitat designations and litigation, which could negatively affect military mission capabilities. The Deputy Under Secretary of Defense (DUSD) (Installations and Environment) and the Services should work aggressively to coordinate and complete all remaining plans. In addition, the DUSD (Installations and Environment) and the Services must establish a coordination process with the U.S. Fish and Wildlife Service, reconcile the number of plans required and coordinated with the U.S. Fish and Wildlife Service, and issue policy to prepare, coordinate, and implement the plans.

REPORT NO. D-2003-025. DoD Alternative Fuel Vehicle Program. Public Law 102-486, “Energy Policy Act of 1992,” directed Federal agencies to establish a program to promote the development of domestic replacement fuels, to include alternative fuel vehicle acquisition, operation, and fueling requirements. Executive Order No. 13149, “Greening the Government Through Federal Fleet and Transportation Efficiency,” endorsed the alternative fuel vehicle acquisition requirements established by the Energy Policy Act of 1992 and directed Federal

agencies to exercise leadership in the reduction of petroleum consumption through improvements in fleet fuel efficiency, and the use of alternative fuel vehicles and alternative fuels. DoD Components had about 12,500 alternative fuel vehicles in their fleets. This report discusses impediments to program compliance and explains current Department actions.

DoD has made limited progress in implementing an effective alternative fuel vehicle program. DoD did not meet the 75 percent alternative fuel vehicle acquisition goals for FYs 2000 and 2001, acquiring 47 and 62 percent, respectively, and is not likely to meet the goal in FY 2002. DoD had alternative fuels refueling capabilities on or near only 76 of about 5,300 operating sites nationwide and commercial alternative fuel facilities are insufficient to support the national alternative fuel vehicle program. Systems for tracking fuels usage for the DoD alternative fuel vehicle program were also inadequate. Furthermore, DoD did not include alternative fuels within the total energy management of petroleum fuels and until FY 2000 did not finance alternative fuels through the Defense Working Capital Fund. DoD has not met the Energy Policy Act of 1992 goals of increasing fleet fuel efficiency and reducing petroleum consumption through the use of alternative fuel vehicles and alternative fuels. Development and implementation of a comprehensive strategy will improve program compliance. The Under Secretary of Defense (Acquisition, Technology, & Logistics) and the Under Secretary of Defense (Comptroller) support for the inclusion of alternative fuels within the Defense Working Capital Fund will increase program efficiency.

FINANCE AND ACCOUNTING

REPORT NO. D-2003-010. Promptness of FY 2003 First Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services. The audit was conducted in response to Public Law 106-554, the Consolidated Appropriations Act of 2001. The Act requires the inspector general of each Federal agency that receives water and sewer services from the District of Columbia to report to the Congressional Appropriations Committees on the promptness of payments within 15 days of the start of each quarter.

DoD Components promptly made first quarter FY 2003 payments totaling \$530,000 to the Department of the Treasury for District of Columbia water and sewer services. Walter Reed Army Medical Center and the National Imagery and Mapping Agency were the only Components required to pay this quarter. Washington Headquarters Services, Arlington National Cemetery, Fort McNair, the Navy, and Bolling Air Force Base have credit balances because of excessive charges in prior years and were not required to make quarterly payments in FY 2003.

REPORT NO. D-2003-017. Naval Ammunition Logistics Center Financial Reporting of Ammunition and Other Ordnance Assets in Operating Materials and Supplies for FY 2002. This report discusses the Navy effort to improve financial reporting of the conventional ordnance portion of its Operating Materials & Supplies and to improve its

ordnance information management system. The Navy's principal system for reporting ordnance information is the Conventional Ammunition Integrated Management System (CAIMS).

The Naval Ammunition Logistics Center (the Center) was not capturing the data needed to accurately report conventional ordnance in the financial statements, and was not properly presenting and valuing conventional ordnance that is Held for Repair. As a result, the Navy's accuracy in reporting more than \$35.6 billion of conventional ordnance for FY 2002 will not be measurable, and the Navy will not be in compliance with Federal accounting standards. If the Assistant Secretary of the Navy (Financial Management and Comptroller) would require the Center to comply with the Financial Management Regulation and use historical cost data for financial reporting and if the Commander, Naval Ammunition Logistics Center, establishes system interfaces with the Navy weapon system program offices these deficiencies will be corrected and accuracy of Navy financial reporting should improve.

The Center made substantial improvements to the capability and functionality of CAIMS during the past two years. However, the Navy did not plan to fix the financial reporting problems in CAIMS for at least 2 more years despite the relatively small cost of the changes needed. As a result, the annual financial reporting of ordnance will continue to be inaccurate and CAIMS will remain non-compliant with financial reporting requirements until FY 2004 or later. The Assistant Secretary of the Navy (Financial Management and Comptroller) should take steps to fix the reporting problems as soon as possible to provide a more accurate representation of Naval ordnance in the annual financial statements.

REPORT NO. D-2003-020. Naval Air Systems Command Financial Reporting of Non-Ammunition Operating Material and Supplies For FY 2002. The Naval Air Systems Command reported \$16.5 billion of non-ammunition Operating Material & Supplies (OM&S) consisting of appropriations purchase account principal end items and sponsor-owned material.

The Navy policy to include principal end items as OM&S, led the Navy to incorrectly report National Defense Property Plant and Equipment assets as OM&S. As a result, the Navy FY 2002 beginning balance for the OM&S account included approximately \$6.9 billion of principal end item assets that should be reported as National Defense Property Plant and Equipment. The Navy will need to identify and correct the remaining principal end item assets that are reported on the OM&S balance, prior to issuing FY 2002 Financial Statements.

During the audit, the Assistant Secretary of the Navy (Financial Management Comptroller) took corrective action to remove \$1.1 billion of installed aircraft engines that were erroneously included in the Navy non-ammunition OM&S balances. The Navy corrected this improper inclusion before it released the FY 2001 Financial Statements.

REPORT NO. D-2003-030. Financial Reporting of Deferred Maintenance Information on Air Force Weapons Systems For FY 2002. The report discusses how to comply with deferred maintenance reporting requirements.

The Air Force did not accurately report deferred maintenance. Improved compilation procedures were needed for about \$190.7 million in deferred maintenance information. Additionally, the Air Force only collected information on maintenance actions funded by the Operations & Maintenance appropriation. It did not identify whether any deferred maintenance was associated with the \$3.3 billion of maintenance annually funded by other appropriations. The Air Force was not planning to change its procedures for FY 2002 reporting. For improvements to be made, the Air Force should develop more comprehensive procedures for collecting deferred maintenance information. Otherwise, the Air Force will not be able to provide a reliable estimate of deferred maintenance on national defense property, plant, and equipment (PP&E) in FY 2002.

The Air Force method of presenting deferred maintenance on national defense PP&E needed improvement. DoD should require the Air Force to report major asset classes in accordance with Federal regulations and the Air Force needs to develop a narrative that includes all the elements required by Federal accounting standards to improve deferred maintenance reporting. Unless improvements are made, enough information will not be presented to allow users and readers to understand the significance of deferred maintenance estimates or to make informed decisions on the condition of Air Force national defense PP&E.

REPORT NO. D-2003-034. Adjustments to the Intergovernmental Payments Account.

The report discusses the need for documentation to support adjustments to closed appropriations.

The Defense Finance and Accounting Service (DFAS) Cleveland and the Navy improperly approved adjustments totaling \$65.9 million and processed \$53.3 million in adjustments from the intergovernmental payments account to closed Navy appropriations without sufficient supporting documentation. Without sufficient documentation, the adjustments should not have been approved and are, therefore, improper. Also, DFAS Cleveland did not identify adjustments from the intergovernmental payments account to closed appropriations within its assessable units and therefore, did not identify the material management control weakness identified by the audit. The adjustments to closed Navy appropriations were improper, and reflect an overall weakness in the control environment for the DoD Fund Balance With Treasury account. Improved guidance will assist accounting personnel in determining the minimum documentation that they can accept as support for adjustments to closed appropriations. The guidance should describe the documentation required to identify the proper expenditure account, the responsible fund holder, and the payment date. The guidance should also include a flowchart mapping the decisions and documents required to adjust closed accounts referenced to specific paragraphs in the guidance. Management should expand its self-evaluations of management controls to cover adjustments to closed appropriations to provide the oversight and improvement these issues require.

REPORT NO. D-2003-039. Naval Supply Systems Command Revaluation of Inventory to Latest Acquisition Cost. The report discusses the valuation of inventories on the Department of the Navy Working Capital Fund financial statements.

The Command materially misstated inventory when it revalued it from standard price to latest acquisition cost. The revaluation methodology was incorrect because the Command removed a cost recovery rate from standard-priced inventory that differed materially from the cost recovery rate that the Naval Inventory Control Point added during initial item pricing. We estimate that wholesale serviceable condition inventory was misstated by approximately \$497 million for the period ending March 31, 2001. Additionally, Command data showed that wholesale inventories were misstated by approximately \$668 million for the period ending September 30, 2001. The Command used the same revaluation process for FY 2002 financial reporting. Until the revaluation methodology is corrected, the inventory values computed by the Command cannot be relied upon for Navy Working Capital Fund end-of-period reporting.

HEALTH CARE AND HUMAN CAPITAL

REPORT NO. D-2003-031. Human Capital: Defense Contracting Command-Washington.

The Director, Defense Procurement requested the audit after a Procurement Management Review identified potential issues concerning equal employment opportunity, pay banding in employee compensation, and workforce qualifications and training at the Defense Contracting Command-Washington (DCC-W). The Director, Defense Procurement expressed particular concern that DCC-W had racial or equal employment opportunity-type problems that were affecting the performance of duties of DCC-W personnel.

The audit did not identify improprieties concerning equal employment opportunity and the adoption of pay banding, but improvements should be made in training and organizational planning. DCC-W did not adequately document that all its professional contracting personnel had the required education, experience, or training necessary to perform their jobs. Records for 27 (26 percent) of 102 acquisition personnel did not contain documentation that those personnel had met the requirements for their certifications. In addition, records for 46 (56 percent) of 82 personnel did not contain documentation that those personnel had received the required continuing education training. DCC-W did not have guidance in place to ensure that personnel certification and training requirements were properly documented and monitored. As a result, DCC-W could not ensure that all its professional contracting employees were properly certified and adequately trained to perform their assigned functions. DCC-W should re-examine the 27 questionable certifications to ensure that they were properly supported and granted. Also, DCC-W should develop and issue internal command guidance to ensure timely monitoring and recording of personnel training.

Planning for the reorganization creating DCC-W was incomplete. The Administrative Assistant to the Secretary of the Army had not signed the general order to establish DCC-W. In addition, DCC-W did not have an approved staffing requirement. The Administrative Assistant to the Secretary of the Army had not taken action to coordinate the approval of the general order. DCC-W did not perform or request a management study to determine the appropriate number of personnel required. As a result, DCC-W may not have the most

effective and efficient organization to accomplish its mission. The Administrative Assistant to the Secretary of the Army should initiate an action to coordinate with DCC-W for an approval of a general order. Also, DCC-W should request a management study to determine personnel requirements so that an approved Table of Distribution and Allowances can be obtained.

REPORT NO. D-2003-032. Results of the Survey Regarding Undue Influence on Army Component Members to Join Non-Federal Entities. The Under Secretary of Defense for Personnel and Readiness requested that we assess the implementation of policies with regard to inappropriate coercion or pressure for Army members to join various non-Federal entities. The Under Secretary requested that the evaluation include a quick-look type of survey of active Army, Army Reserve, and Army National Guard personnel on the nature of any such practices (coercion or pressure) by commanders or supervisors and assess compliance with applicable standards. The report discusses the results of the quick-look survey.

The respondents to our survey indicated that DoD prohibitions on coercing or pressuring Army members to join non-Federal entities have not been fully implemented or complied with. We found that 18 percent of the respondents stated they were aware of a situation occurring in the last 12 months regarding coercion or pressure related to non-Federal entity membership and 19 percent were aware of a situation that occurred more than 12 months ago. Also, 31 percent of the respondents stated that the Army had provided adequate training about joining non-Federal entities, 38 percent said the training was not adequate, and 31 percent didn't know. Additionally, 38 percent of the respondents stated that the Army had provided adequate guidance about prohibiting commanders or supervisors from coercing or pressuring personnel to join non-Federal entities, 30 percent said the guidance was inadequate, and 32 percent didn't know. Eighteen percent of the respondents stated their belief that commanders or supervisors were tracking membership in non-Federal entities.

INFORMATION TECHNOLOGY RESOURCES

REPORT NO. D-2003-002. Information Resource Management at the Army Aviation and Missile Command. This audit was initiated in response to a Hotline allegation that the Army Aviation and Missile Command (the Command) was not properly managing information resources at the Redstone Arsenal, Huntsville, Alabama.

The Command was not effectively managing information resources at the Redstone Arsenal. Although the Chief Information Officer (CIO) was engaged in the Command's investment and architecture strategy, information technology purchases of more than \$1.5 million were not coordinated and deliverables did not meet software and accreditation standards. The Command must allow the CIO to become more involved in the business decision processes of its organizations when they acquire information technology. In addition, untrained personnel made quality acceptance recommendations for more than \$11.5 million in purchases; purchase card holders made more than \$1 million in unapproved acquisitions; and

the Command did not realize a potential \$431,000 annual cost avoidance by combining modules of similar systems. Management controls need to be put in place to ensure that personnel who make quality acceptance recommendations for purchases receive training in basic information technology concepts and to ensure that only approved cardholders acquire information technology products and services. Further, the Command needs to reassess the feasibility and cost effectiveness of combining similar system modules.

The Command's management control evaluation for information management did not include all resources at the Redstone Arsenal. Further, when a CIO-sponsored information technology study reported that the Command was not following best practices, the Command chose not to report the material weaknesses or the actions that it was taking to correct the weaknesses in its FY 2001 Annual Statement of Assurance. The Command needs to evaluate all information management and information technology functions of Redstone Arsenal and report actions to correct any material weaknesses in its FY 2002 Statement of Assurance.

REPORT NO. D-2003-004. Acquisition of the Advanced Deployable System. The System, a Navy Acquisition Category II program, is a next-generation, ship-deployable, undersea surveillance system that is designed to operate in littoral waters. The report addresses acquisition issues that require higher management attention before the System program should be allowed to progress further through the acquisition process.

Overall, the System program warrants attention in the areas of acquisition category designation, earned value management, and documentation before it enters the full-rate production phase of the acquisition process.

- o The System program manager did not inform the Assistant Secretary of the Navy (Research, Development, and Acquisition) that the oversight of the program should be raised to the level of an acquisition category I program. As a result, acquisition management oversight was not provided commensurate with that required for an acquisition category I program. Designating the System as an acquisition category I program should provide the oversight necessary for an acquisition program of this magnitude.

- o The program office did not apply standard estimate-at-completion formulas in calculating earned value management computations and did not request the Defense Contract Management Agency (DCMA) to review earned value management calculations. As a result, the program office's estimate at completion was significantly lower than the estimate at completion calculated using standard formulas and did not provide decision makers with accurate data on estimated contract cost overruns. Revising the current draft memorandum of agreement between the program office and DCMA to include DCMA oversight of contractor earned value management calculations will help provide accurate earned value management data to decision makers.

- o The System program office had not completed actions to update the acquisition strategy; cost analysis requirements description; life-cycle cost estimate; command, control, communications, computers and intelligence support plan; and programmatic environmental, safety, and health evaluation plan as required to show the current status of the program. As a result, the program manager did not have up-to-date acquisition documentation needed to effectively manage program cost and performance and acquisition decision makers could not make fully informed investment decisions.

REPORT NO. D-2003-009. Security Controls for the Defense Procurement Payment

System. The Defense Finance and Accounting Service (DFAS) initiated the Defense Procurement Payment System (DPPS) as part of the DoD Paper-Free Contracting Initiative. This report addresses the system's compliance with DoD security policy.

DFAS did not provide reasonable assurance that the general security controls for the initial development of DPPS were adequate. DPPS did not fully implement the requirements to be reviewed under the Government Information Security Reform Act (GISRA) and if fielded as is would operate without basic security elements such as proper access controls and a contingency plan. As a result, existing weaknesses may lead to unauthorized access by potential users that may result in undetected alteration or misuse. Those weaknesses may also cause DPPS to negatively impact the DFAS Corporate Information Infrastructure system interoperability. To improve system security and eradicate existing weaknesses, the DPPS Program Management Office should: revise the System Security Authorization Agreement and the memorandum of agreement in accordance with the current directive, review security documents of the Defense Corporate Database, test the continuity of operations plan for the system, develop standard operating procedures for obtaining access to the system, and implement fully the provisions of DoD guidance to bring the system into full compliance with GISRA.

REPORT NO. D-2003-011. Implementation of Interoperability and Information

Assurance Policies for Acquisition of DoD Weapon Systems. This report addresses the importance of adhering to DoD interoperability and information assurance policies to reduce the risk of DoD weapon systems not being interoperable and able to exchange information in a secure manner with other DoD and allied systems.

The Department faces a difficult challenge in achieving interoperability between DoD systems and needs congruent and effective mechanisms to measure and oversee its progress. Without consistent guidance that makes combat and materiel developers analyze programs using an operational architecture view, the DoD is at risk of developing systems that operate independently of other systems and of not fully realizing the benefits of interoperable DoD systems to satisfy the needs of the warfighter as outlined in Joint Vision 2020. Implementing a process that timely integrates revisions for interoperability and information assurance policies into the applicable DoD and Chairman of the Joint Chiefs of Staff interoperability and information assurance policies; establishing criteria and procedures for placing DoD systems on the Interoperability Watch List; comparing the operational requirements documents (ORDs) of proposed DoD systems against the other ORDs in the related mission area architecture;

updating the Joint Command, Control, Communications, Computers, and Intelligence Program Assessment Tool database and controlling user access; and defining and implementing a plan to test critical operational issues for DoD systems in the Global Information Grid should better enable DoD to implement interoperability and information assurance policies.

REPORT NO. D-2003-026. Allegations Regarding the DoD Education Activity's Use of the Standard Procurement System. We performed this audit in response to a complaint to the Defense Hotline regarding the DoD Education Activity's decision to forgo implementation of the Standard Procurement System (SPS) in favor of another automated procurement system. The allegation stated that this decision was in direct violation of a July 12, 1996, memorandum from the Director, Defense Procurement that prohibited the acquisition or development of any software that duplicates a function performed by a deployed version of SPS unless the Director approved the intended action. The report discusses the requirements that determine whether an agency should adopt SPS.

The DoD Education Activity upgrade of its legacy procurement system in lieu of SPS was an appropriate decision. The Office of the Director, Defense Procurement leaves the decision of when to implement SPS to individual DoD Components. That decision should be based on a business case analysis. The DoD Education Activity evaluated the costs and functionality of SPS against its legacy procurement system and, in June 2001, determined that delaying SPS implementation would be the most cost-effective course of action for the agency. The cost to upgrade the legacy system was \$328,958 and the cost to start using SPS was \$1.3 million. On January 15, 2002, the SPS program was placed in a strategic pause to address customer satisfaction and compliance issues, and to institute new processes for program management.

REPORT NO. D-2003-027. Government Information Security Reform Act Implementation: Defense Advanced Research Projects Agency Management Support System. The report discusses our independent assessment of the information security posture of the Defense Advanced Research Projects Agency (DARPA) Management Support System.

The data reported for the System in the Government Information Security Reform Act collection matrix for FY 2001 were partially inaccurate as of August 1, 2001, the date of the FY 2001 collection matrix data. DARPA answered 5 of the 32 collection matrix data fields incorrectly. Also, DARPA did not provide documentation that supported 8 of the 32 responses. Additionally, the key DARPA information assurance staff positions were not aligned in a way that ensures segregation of duties and the required checks and balances in the DoD Information Technology Security Certification and Accreditation Process for the System. Furthermore, DARPA did not formally appoint three of the four key information assurance staff positions required to ensure the appropriate checks and balances during the certification process. Also, the designated approving authority was not within the operational chain of command, as the DoD Information Technology Security Certification and Accreditation Process requires. Further, DARPA did not provide support that it had verified that the

contractors working on the system had proper security clearances. As a result, the System may not have adequate information security operational controls that ensure sensitive information is safeguarded.

LOGISTICS

REPORT NO. D-2003-005. DoD Use of the North Atlantic Treaty Organization

Maintenance and Supply Agency. This report discusses some of the impediments that prevent maximum use of the North Atlantic Treaty Organization (NATO) Maintenance and Supply Agency (the Agency) as a secondary source of maintenance.

DoD could improve its use of the Agency for combined logistics support and reduce costs. Specifically, the Army did not join the Helicopters Weapon System Partnership Agreement. In addition, the Navy did not maximize its use of a weapon system partnership agreement. As a result, the Military Departments will incur surcharges when using existing weapon system partnership agreements that the U.S. is not a member of. In FY 2004, the Army could incur about \$1 million in additional costs for its projected helicopter component maintenance and repair workload. Also, the Navy may experience readiness shortfalls while it awaits high-demand, depot-level repairables for the P-3 Orion requisitioned from Navy sources. In addition, the Military Departments may not realize other potential benefits from using the Agency to support their combined logistics support requirements, to include consolidated procurement of supplies, storage and services. DoD Directive 2010.8, "Department of Defense Policy for NATO Logistics," should be revised to provide the Military Departments with documented procedures for submitting requirements and for joining and using weapon system partnership agreements so that the Agency can be used to the maximum for combined logistics support. The Army could realize potential monetary benefits by joining the Helicopters Weapon System Partnership Agreement. The Navy could reduce lead time for high-demand, depot-level repairables for the P-3 by using the C-130 Hercules/P-3 Orion Weapon System Partnership Agreement.

REPORT NO. D-2003-033. Accountability and Control of Materiel at the Naval Air

Depot, North Island. This report discusses compliance with policies and procedures used to account for and control materiel at Naval Air Depot, North Island.

Materiel stored in maintenance storerooms at Naval Air Depot, North Island in San Diego, California exceeded requirements. Also, significant levels of materiel stored in work center storerooms were not recorded on accountable records. As a result, the Depot had as much as \$40 million of excess, unrecorded materiel on hand that was not visible to item managers to satisfy known requirements. Also, our stratified sample of 539 inventory records at the Depot produced an estimated count error rate of about 8.8 percent. Large and inaccurate inventories made materiel difficult to manage. Unrecorded materiel lacks visibility, making it

vulnerable to loss, obsolescence, and theft. Increased management controls over maintenance materiel will improve the accuracy of the Depot inventory, reduce excess materiel, and correct material management control weaknesses identified in this report.

REPORT NO. D-2003-036. Property Accountability at Research, Development, Test, and Evaluation Installations. This report evaluates the Military Departments' improvement in maintaining property accountability over personal property at research, development, test, and evaluation (RDT&E) installations.

The Military Departments improved procedures and controls for maintaining property accountability at six RDT&E installations. We visited two RDT&E installations in each of the Military Departments and--based on our review of new regulatory guidance, in-house assessments and inventories, a judgmental sample of items, and work area environments at those installations--concluded that personal property was properly maintained on accountability records with minor exceptions, was located in safeguarded, active work areas, and was being used or was marked for disposal.

AUDIT OVERSIGHT REVIEWS

REPORT NO. D-2003-6-001. DoD Oversight of Contractor Purchasing Systems. The report explains how analysts and auditors can improve planning and review coverage, while avoiding duplicative or overlapping reviews.

Although the purchasing system reviews were generally adequate for the 13 reviews and 12 audits done by the Defense Contract Management Agency (DCMA) and the Defense Contract Audit Agency (DCAA), respectively, improvements were needed in planning, coordination, and documentation. The DCMA and DCAA review the same contractor purchasing system. Therefore, DCMA and DCAA should jointly reengineer their processes to more effectively meet the needs of both organizations, avoid duplication, and effectively leverage the resources of both organizations. Excellent examples of effective planning and coordination between DCMA and DCAA were demonstrated at three contractor facilities. In addition, although DCMA reviews were adequate, the risk assessment that they used needed improvement.

REPORT NO. D-2003-6-002. Summary of Quality Control Reviews of Office of Management and Budget Circular A-133 Audits. The report discusses audit deficiencies our office found during quality control reviews. By identifying areas for improvement, we hope to provide non-Federal entities and auditors tools that will improve the quality of the Office of Management and Budget Circular A-133 audits (single audits).

Our analysis of the quality control reviews performed between October 1, 1998, and September 30, 2002, found that single audits that independent accounting firms and Government auditors conducted contained deficiencies affecting the reliability of the audits. Of the 12 reports reviewed, deficiencies were identified in the following areas: audit planning and execution (6 reports); documentation of work performed (8 reports); reporting requirements (2 reports); audit coordination (3 reports); and the Schedule of Expenditures of Federal Awards presentation (3 reports). As a result of those issues, the ability of Federal agencies to effectively monitor and manage their programs is impaired because they cannot rely on and use the audit reports to the maximum extent practicable. Furthermore, assurance that non-Federal entities are managing Federal awards in compliance with laws, regulations, and contract and grant provisions is reduced. Improvement in audit quality is needed before Federal agencies can be expected to rely on single audits as a tool for monitoring and managing Federal programs.

PART II

PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS

Summary of the Office of Assistant Inspector General for Auditing - Participation on Management Advisory Teams

(Area Code 703 unless otherwise indicated)

Anti Terrorism Senior Steering Coordinating Committee (MAJ DAN SNY, 604-9190)

Lead Component: Assistant Secretary of Defense (Special Operations and Low Intensity Conflict) Joint Chiefs of Staff J-3

Commercial Activities Inventory Integrated Process Team (HENRY KLEINKNECHT, 604-9324)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense for Personnel and Readiness*

Defense Acquisition Policy Working Group (JOHN MELING, 604-9091)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Defense Environmental Safety and Occupational Health Policy Board

(BILL GALLAGHER, 604-9270)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

DLA/Hamilton Sundstrand Strategic Alliance Relationship (HENRY KLEINKNECHT, 604-9324)

*Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and
Defense Logistics Agency*

DoD A-76 Integrated Process Team (ANELLA OLIVA, 604-9323)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense for Personnel and Readiness*

Financial Management Modernization Program (DAVID STEENSMA, 604-8901)

Lead Component: Under Secretary of Defense (Comptroller)

Government Information Security Reform Act Information Assurance Integrated Process Team
(WANDA SCOTT, 604-9049)

Lead Component: Assistant Secretary of Defense (Command, Control, Communications and Intelligence)

Past Performance Integrated Product Team (BOBBIE SAU WAN, 604-9259)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Reconciliation of Contracts in the Mechanization of Contract Administration Services

Integrated Process Team (JIM KORNIDES, 614-751-1400 x211)

Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and Under Secretary of Defense (Comptroller)

Single Process Initiative Management Team (DEBORAH CARROS, 604-9217)

Lead Component: Defense Contract Management Agency

Special Oversight Coordination Group (DAVID STEENSMA, 604-8901)

Lead Component: Inspector General of the Department of Defense

Summary of the Office of Assistant Inspector General for Auditing - Participation in Special Audit/Evaluation Efforts

Audit Committees:

Defense Advanced Research Projects Agency (DAVE VINCENT, 604-9109)
Defense Commissary Agency (DAVE VINCENT, 604-9109)
Defense Contract Audit Agency (PAUL GRANETTO, 604-9101)
Defense Finance and Accounting Service (PAUL GRANETTO, 604-9101)
Defense Information Systems Agency (RICHARD BIRD, 604-9102)
Defense Logistics Agency (PAUL GRANETTO, 604-9101)
Defense Security Service (BRIAN FLYNN, 604-9489)
Defense Threat Reduction Agency (LEON PEEK, 604-9587)
Missile Defense Agency (DAVE VINCENT, 604-9109)
National Reconnaissance Office (LEON PEEK, 604-9587)
Working Group for Air Force General Fund (BRIAN FLYNN, 604-9489)

Federal Audit Executive Council Multi-Agency Working Groups:

Government Wide Financial Statements (RICHARD BIRD, 604-9102)

Joint Audit Planning Groups:

Acquisition Program (MARY UGONE, 604-9002)
Base Realignment and Closure (KEITH WEST, 604-9202)
Construction, and Installation Support (KEITH WEST, 604-9202)
Contracting Oversight (KEITH WEST, 604-9202)
Quality Assurance Planning Group (KEITH WEST, 604-9202)
Joint Credit Card Audit Planning Group (JOE DOYLE, 604-9349)
Environment (BILL GALLAGHER, 604-9270)
Health Care and Human Capital (MIKE JOSEPH, 757-872-4698)
Information Technology Resources (WANDA SCOTT, 604-9049)
Intelligence (CHARLES SANTONI, 604-9051)
Logistics (TILGHMAN SCHRADEN, 604-9186)